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3. French to continue exports to their enterprises in north Vietnam:

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Pierre Charpentier, economic and financial director for the French Foreign Ministry, told an American embassy official on 10 August that France will not put a complete ban on the export of any item, "strategic or otherwise," to French enterprises in north Vietnam. He was sure that Premier Mendes-France would agree with this, since the Viet Minh gave written assurances at Geneva that French property rights would be recognized and that no discriminatory fiscal or administrative measures would be applied.

Charpentier said that the French government had encouraged industrialists to remain in north Vietnam to forestall the belief that France has given up hope of Vietnam winning the June 1956 elections.

Comment: The only important French-owned industries in Tonkin are textile mills in Nam Dinh, cement works near Hanoi, and anthracite coal mines near Haiphong. These establishments operated profitably during the war, repatriating their profits at highly favorable exchange rates.

The French decision to facilitate continued operation of these industries confirms reports that France will try to develop working relations with the Viet Minh. This and the lack of French support for the nationalistic Diem government virtually preclude the development of a strong and effective government in the south that could have nationwide appeal.

NEAR EAST - AFRICA

4. High-level Saudi conflict seen in annulment of German contract:

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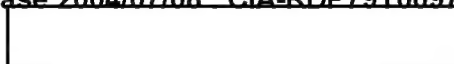


Saudi Arabia's notification on 7 August that it had annulled its contract with the German engineering and construction company, Govenco, probably results from a conflict in highest Saudi circles, according to Ambassador Wadsworth.

Wadsworth states that the primary objective of the Saudi action is to discredit Finance Minister Sulaiman, an influential anti-American official. Sulaiman is reported to have signed the Govenco contract last fall against the wishes of King Saud, then crown prince, and of Prince Faisal, the foreign minister.



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5. Anti-American sentiment developing in Morocco:

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[redacted] Anti-American sentiment is developing in Port Lyautey both among French residents and the Moroccans, [redacted] The French resent the removal of American families resident in the native quarter and accuse Resident General Lacoste of protecting American interests above their own. The Moroccans allege that the United States supplied France with the arms and ammunition to kill them.

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Comment: Until recently, there have been few open expressions of anti-American feeling in Morocco.

EASTERN EUROPE

6. Rumors of Czech rationing or currency reform set off buying wave:

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[redacted] Growing rumors that the Czech government intends to reimpose rationing or institute a currency reform have stimulated a buying wave which is described [redacted] as the "biggest boom in years." The American embassy in Prague reports, however, that the buying spree has not reached panic proportions.

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The most widespread but least probable rumor is that the government may replace the Czech crown with the Russian ruble. American and British officials believe that a return to rationing or a forced loan are more likely possibilities.

Comment: Reports circulating in Prague in late July that employees of the government printing establishment had been confined to the premises since 21 July on a "hush-hush" printing job set off these rumors.

The reimposition of meat rationing, rumored as early as last May, is plausible, since the shortage of meat is becoming increasingly acute in Czechoslovakia. The drastic currency reform of June 1953 was so unpopular that it is unlikely the government would decree another at this time.

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7. Tito tells USSR that Soviet co-operation would accelerate "normalization":

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In reply to a Soviet demarche, Marshal Tito told Soviet ambassador Valkov on 11 August that relations between their countries could be normalized faster, provided the Soviet Union is willing to co-operate in improving economic relations, returning Yugoslav children retained in the USSR, and according fair treatment to Yugoslav citizens in the Soviet Union.

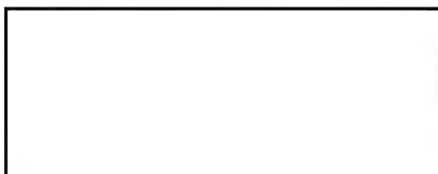
Tito made it clear, however, that Belgrade would maintain its complete independence and continue close relations with its Western allies and friends, according to the report of the conversation given Ambassador Riddleberger by Foreign Secretary Popovic.

Comment: The Yugoslavs believe that negotiations with the Soviet Union can be profitable for themselves and for the West. On the other hand, Belgrade's alignment with the West is growing firmer. Its military co-operation will slowly but almost inevitably broaden following the signing of the Balkan military alliance.

WESTERN EUROPE

8. Comment on recent internal developments in Trieste:

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Developments in Trieste [redacted] are such that any demonstrations could lead to rioting. There are, however, no recent reports of actual preparations to initiate violence.

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Several of the extremist political groups in Trieste are reported to have assembled "defense forces" to "protect" various installations in the area, preparing for any necessary action when partition is announced. The Cominform Communists allegedly have 1,350 men organized to protect the offices of the Communist labor union.

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The leaders of the four center parties are allegedly incensed over a derogatory report concerning them which was prepared by Italian political adviser Fracassi in Trieste. As a result much of Fracassi's work to moderate the attitude of the center parties toward a possible partition of Trieste may be undermined.

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